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**ILLINOIS-AMERICAN WATER COMPANY,
CITIZENS UTILITIES COMPANY OF ILLINOIS and
CITIZENS LAKE WATER COMPANY**

:
: Docket 00-0476
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**Petition For Approval Of Proposed Reorganization and
Affiliated Interest Agreements, Issuance of Common Stock
and Debt Securities and Assumption of Affiliated Interest
Agreements.**

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VERIFIED APPLICATION

Illinois-American Water Company ("Illinois-American" or "IAWC") and Citizens Utilities Company of Illinois ("CUCI") (herein referred to jointly as the "Joint Applicants"), pursuant to Sections 7-102 and 7-204 of the Illinois Public Utilities Act (the "Act") (220 ILCS 5/7-102, 7-204), hereby seek approval for the purchase by Illinois-American of the water/wastewater assets of CUCI ("the Acquisition" or "Reorganization"). Also, pursuant to Section 6-102(b) of the Act (220 ILCS 5/6-102(b)), Illinois-American seeks approval to issue up to \$112.5 million of its Common Stock, no par value. The Common Stock and certain debt securities which will be discussed will provide the funds necessary to accomplish the Acquisition. Also, pursuant to Section 7-101 of the Act, Illinois-American seeks approval for the assumption of CUCI's rights and obligations under a lease agreement ("Lease") with Citizens Resources Company ("CRC"). Pursuant to Section 8-508 (220 ILCS 5/8-508) of the Act, CUCI seeks approval to permanently abandon the provision of water and sanitary sewer service in all areas served by CUCI, as of the date of closing of the Acquisition. In addition, Illinois-American and Citizens Lake Water Company ("CLW"), a common carrier by pipeline, seek authority under Section 7-101 of the Act and Section 15-102 of the Common Carrier by

Pipeline Law ("Carrier Act") (220 ILCS 5/15-102) for the assumption by Illinois-American of CUCI's rights and obligations under: (i) two agreements between CUCI and CLW for the purchase by CUCI of water on a wholesale basis ("Water Purchase Agreements"); (ii) an agreement between CLW, CUCI and the Village of Bolingbrook ("Village") for water storage and transportation ("Storage/Transportation Agreement"); and (iii) an agreement between CUCI and CLW for the provision by CUCI of certain management and other services (the "Services Agreement").

In support of this Verified Application, the Joint Applicants state as follows:

1. Notices in this proceeding should be sent to:

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A. The Companies Involved In The Proposed Acquisition

2. Illinois-American is a corporation duly organized and existing under and by virtue of the laws of the State of Illinois and is a public utility within the meaning of the Act. Illinois-American has its principal office in Belleville, Illinois, and presently provides water utility service to approximately 214,000 customers in 87 communities in Illinois. The Company

has three Divisions: the Northern Division, which includes the Peoria, Pekin and Lincoln operating Districts; the Southern Division, which includes the Interurban, Cairo and Alton operating Districts; and the Eastern Division, which includes the Champaign, Pontiac, Streator and Sterling operating Districts.

3. Illinois-American is a subsidiary of American Water Works Company, Inc. ("AWW"), a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, with its principal office in Voorhees, New Jersey. AWW's subsidiaries provide water utility service to more than 10 million people in 23 states. AWW is the largest investor-owned water utility holding company in the United States. The common stock of AWW is publicly traded on the New York Stock Exchange.

4. Pursuant to an affiliated interest agreement approved by the Commission in Docket 88-0303, Illinois-American receives administrative, engineering, financial, human resources, certain management, information systems, risk management, water quality, and other services from American Water Works Service Company, Inc. ("AWW Service"), a wholly-owned subsidiary of AWW. AWW Service is headquartered in Voorhees, New Jersey.

5. CUCI is a corporation duly organized and existing under and by virtue of the laws of the State of Illinois, with its principal office in Woodridge, Illinois. CUCI is a public utility within the meaning of the Act. CUCI operates 26 service districts in Cook, Du Page, Will, Kane, Kendall, and Grundy Counties, Illinois. CUCI provides water services to approximately 35,000 customers and wastewater collection and/or treatment to nearly 32,000 customers. CUCI is a wholly-owned subsidiary of Citizens Communications Company, formerly Citizens Utilities Company ("CUC").

6. CLW is a corporation duly organized and existing under and by virtue of the laws of the State of Illinois and is a common carrier by pipeline as defined in Section 15-201 of the Carrier Act. CLW plans to construct, operate and maintain a regional water pipeline and transmission facilities ("Pipeline") in Cook, Will and DuPage Counties, Illinois, and provide Lake Michigan Water ("LMW"), on a wholesale basis, to governmental bodies and to water public utilities serviceable from the Pipeline. Pursuant to the Water Purchase Agreements, which were approved in Dockets 96-0200 and 96-0240 (consolidated), CLW also intends to deliver water at wholesale to CUCI. CUCI provides certain services to CLW pursuant to the Services Agreement, which also was approved in Dockets 96-0200 and 96-0240 (consolidated).

7. CRC is a corporation organized under the laws of the State of Delaware, that owns certain real estate, including an office building used by CUCI pursuant to the Lease. The office building used by CUCI will be acquired by AWW, and may be assigned by AWW to an affiliated company (other than Illinois-American).

8. Citizens Business Services Company ("CBSC") is a corporation organized under the laws of the State of Illinois, that owns, inter alia, certain assets primarily related to the business operations of CUCI (the "Business Assets").

B. The Proposed Transaction

9. Subject to the approval of the Commission, Illinois-American has entered into an Asset Purchase Agreement ("Agreement") with AWW, CUC, CUCI and certain other affiliates of CUC under which Illinois-American will purchase from CUCI all assets of CUCI used by it exclusively in providing water or wastewater service (the "CUCI Assets") for cash. Under the Agreement, Illinois-American also will purchase the Business Assets from CBSC. The CUCI Assets and Business Assets are referred to collectively, herein, as the Utility Assets. Under the Agreement, Illinois-American will acquire the rights and duties of CUCI under certain contracts,

and assume certain liabilities. The Agreement covers certain other transactions, such as the purchase by AWW of the stock of CLW, that do not require the approval of this Commission and which are not addressed in this Verified Application.

10. The purchase price for the Utility Assets is \$219,896,000. (This price represents that portion of the overall price for all property acquired under the Agreement that is applicable to Illinois-American's purchase of the CUCI Assets and the Business Assets.) The purchase price is subject to adjustment after closing to reflect changes in the value of the assets being purchased, such as the investment in capital additions, since June 30, 1999. As discussed more fully below, the purchase price is reasonable and the result of arm's length negotiations.

11. From and after the effective date of the Acquisition, CUCI will transfer its water and wastewater utility business to Illinois-American. Illinois-American will continue all water and wastewater services presently provided by CUCI in the area presently served by CUCI, without interruption. That area will initially become a separate Division of Illinois-American. Joint Applicants, therefore, request that the Commission approve the assumption by Illinois-American of Certificates of Public Convenience and Necessity ("Certificates") for those areas in which CUCI presently provides water or wastewater service, such assumption to become effective on the effective date of the Acquisition. The areas covered by the Certificates are depicted in Exhibit "A", and a listing of the Certificates is shown in Exhibit "B."

12. If the Commission approves the Acquisition, Illinois-American will be providing service to all of CUCI's former customers and service areas. There will be no public need or necessity for CUCI to do so. Therefore, CUCI should be authorized to permanently abandon the provision of water and sanitary sewer service in all areas served by CUCI, effective as of the date of closing of the Acquisition.

13. From and after the effective date of the Acquisition and until such time as a change(s) is (are) approved by the Commission, Illinois-American will maintain in effect the various rates, rules, regulations, terms and conditions of service to the public approved by the Commission for each of the service areas of Illinois-American, including the area previously served by CUCI. Illinois-American is presently reviewing with the Commission's Staff standardized rules, regulations, terms and conditions of service ("Standardized Rules") which will apply initially to Illinois-American's present service areas (not including those formerly served by Northern Illinois Water Corporation ("NIWC") or United Water Illinois, Inc. ("UWI"), each of which recently merged into Illinois-American). Illinois-American intends to file the Standardized Rules for the present service areas for Commission approval in the near future. Standardized Rules which will, to the extent appropriate, apply to all service areas of Illinois-American, including those presently served by CUCI, will be filed within 36 months after the Acquisition.

14. Illinois-American maintains its books in such a manner that it can determine the cost-of-service for each area it serves. From and after the effective date of the Acquisition, and until such time as a change is approved by the Commission, Illinois-American will continue to maintain its books and records in such a manner that it can determine the cost of service for each service area, including the area previously served by CUCI.

C. Impact Of The Acquisition

15. The water industry is rapidly changing in Illinois, nationally and internationally. There is an industry-wide trend toward consolidation and privatization driven by a number of factors including but not limited to: (a) more stringent water quality, supply and environmental standards, (b) aging infrastructure that must be replaced, (c) technology changes, (d) major

capital requirements necessitated by all of the foregoing factors, and (e) the need to facilitate long-term least cost service to customers.

16. Illinois-American is now the largest investor-owned water utility in Illinois. Illinois-American's parent, AWW, through its operating subsidiaries in 23 states, is the largest investor-owned water and wastewater utility business in the United States. The Acquisition will position Illinois-American and AWW to bring to bear in Illinois (a) operating efficiencies associated with spreading consolidated management costs over a much wider customer base, (b) improved borrowing costs and buying power, and (c) enhanced and integrated critical resources in management, technology, engineering, water quality, customer services and source of supply planning. It will also enhance the combined organization's ability to absorb small water utilities with an emphasis on those that present a danger to the public. The Acquisition is a part of AWW's strategy to continue to provide excellent value to customers, and focus exclusively on the needs of water and wastewater systems.

17. Illinois-American is committed to providing adequate, efficient, safe and least-cost service, as is demonstrated by its consistent record of quality service. Illinois-American will bring this commitment to the area presently served by CUCI. The Acquisition will not adversely affect Illinois-American's ability to provide adequate, reliable, efficient, safe and least-cost public utility services.

18. The Acquisition will not result in the unjustified subsidization of non-utility activities by Illinois-American or its customers. At present, neither Illinois-American nor CUCI engages in a significant level of such activity. To the extent that Illinois-American engages in such activities in the future, it will continue to maintain its books and records in such a manner

as to fairly and reasonably allocate utility and non-utility activities, and allow the Commission to identify those costs and facilities that are properly included for ratemaking purposes.

19. The Acquisition will not impair Illinois-American's ability to raise necessary capital on reasonable terms or to maintain a reasonable capital structure.

20. Illinois-American will remain subject to all applicable laws, regulations, rules, decisions and policies governing the regulation of Illinois public utilities.

21. Due to the geographical separation of their service areas, there is no significant competition for customers and/or water sales between CUCI and Illinois-American.

Accordingly, market conditions in Illinois after consummation of the Acquisition will be substantially the same as those currently existing. The Acquisition, therefore, is not likely to have a significant adverse effect on competition in Illinois.

22. The Acquisition will not result in any adverse rate impacts on customers.

D. Section 7-204(c) - Savings Sharing Proposal

23. Illinois-American believes that the Acquisition will produce certain economies which will result in a reduced level of costs as compared to the level which would exist for separate companies ("Acquisition Savings"). In the proceeding conducted by the Commission to review this Verified Application, Illinois-American will provide detailed evidence with regard to the nature and amount of the Acquisition Savings.

24. To accomplish the Acquisition and, thereby, bring about the Acquisition Savings, Illinois-American will (i) incur certain costs ("Acquisition Costs") and (ii) pay a price for the Utility Assets which exceeds the net original cost of such assets, resulting in the need to record an Acquisition Adjustment. The Acquisition Costs include costs necessary to combine the operations of the companies. The Acquisition Adjustment is discussed more fully below.

25. As previously discussed, the estimated purchase price for Utility Assets is \$219,896,000. In accordance with the Uniform System of Accounts for Water Utilities ("USOA"), an Acquisition Adjustment, the difference between the purchase price and net original cost, will be recorded as an asset in Account 114, upon the effectiveness of the Acquisition.

26. The instructions for Account 114 of the USOA provide that the amount recorded in that account "shall be amortized, or otherwise disposed of, as the Commission may approve or direct." For purposes of the savings sharing proposal discussed below ("Savings Sharing Proposal"), Illinois-American requests that the Commission approve amortization of the Acquisition Adjustment "below-the-line," in Account 421 — Non-Utility Income, over a period of forty (40) years. Illinois-American further proposes, for purposes of the Savings Sharing Proposal, that a carrying cost (equivalent to the Company's revenue requirement cost of capital) be calculated on the unamortized balance of the Account, for ratemaking purposes.

27. Pursuant to Section 7-204(c) of the Act, Illinois-American requests, in conjunction with the Savings Sharing Proposal, that the Commission find as follows with regard to Acquisition Costs:

(a) Acquisition Costs incurred by Illinois-American will be assigned to the service areas of Illinois-American in accordance with the ratio of the total number of customers in the service area to the total number of customers in all service areas of Illinois-American;

(b) the Acquisition Costs actually incurred by Illinois-American (not to exceed the amount shown by the evidence) shall be deferred in Account 186 of the USOA and amortized over ten (10) years, with an accrual of carrying cost on the unamortized balance of Acquisition Costs.

28. Also, pursuant to Section 7-204(c), Illinois-American offers the following

Savings Sharing Proposal:

(a) for ratemaking purposes, ten percent (10%) of the Acquisition Savings shown by the Company to be reflected in data for each rate case test year ("Demonstrated Savings") will be assigned to ratepayers;

(b) in addition to the amount of Acquisition Savings allocated to ratepayers in subparagraph (a) above, fifty percent (50%) of the amount, if any, by which the Demonstrated Savings exceed the Acquisition Revenue Requirement, as defined in subsection (c) below, for the rate case test year will be assigned to ratepayers;

(c) the annual cost associated with the Acquisition ("Acquisition Revenue Requirement") will be calculated for purposes of the Savings Sharing Proposal, and will be the sum of: (i) the annual amount which will amortize the balance of Acquisition Costs recorded in Account 186, and carrying cost to be accrued, ratably over a ten year straight-line amortization period; and (ii) the annual amount which will amortize the balance of the Acquisition Adjustment recorded in Account 114, including carrying cost to be accrued, ratably over a forty year amortization period, using a Home Mortgage Method; and

(d) the amount of Acquisition Savings assigned to shareholders will be the lesser of: (i) ninety percent (90%) of Demonstrated Savings, or (ii) the Acquisition Revenue Requirement. In addition, shareholders will be assigned fifty percent (50%) of the amount, if any, by which the Demonstrated Savings exceed the Acquisition Revenue Requirement for the rate case test year.

29. For purposes of the Savings Sharing Proposal, the Acquisition Revenue Requirement will be allocated to the service areas of Illinois-American based on the ratio of Demonstrated Savings for the service area to total-company Acquisition Savings.

30. If the Savings Sharing Proposal is approved in its entirety, Illinois-American will not otherwise seek an opportunity to recover the Acquisition Revenue Requirement.

31. Under the Savings Sharing Proposal, approval of the Acquisition can have no adverse impact on rates at any time. In rate orders issued for the combined company, there would be no allocation to ratepayers of the Acquisition Revenue Requirement and ratepayers would be assigned at least 10% of the Demonstrated Savings. All risk that the Acquisition Revenue Requirement may exceed the Demonstrated Savings is borne by the shareholder.

32. Under the Savings Sharing Proposal, shareholders are provided with a fair opportunity to recover a portion of the Acquisition Revenue Requirement, provided that the level of Demonstrated Savings is adequate to cover the Acquisition Revenue Requirement.

33. Adoption of the Savings Sharing Proposal is supported by the following considerations:

(a) The purchase price for the Utility Assets is reasonable and the result of arm's length negotiations. Extensive negotiations between AWW and CUC with regard to the purchase price took place.

(b) The Reorganization will benefit customers in the areas presently served by IAWC and CUCI as a result of increased efficiencies as measured by the Acquisition Savings and the enhanced strength of the combined entities. Both entities possess excellent technical and management capabilities but, combined, their operational synergies will result in savings, and will allow system-wide selection and implementation of best management practices. The financial strength of the AWW system will assure that both the Illinois-American and CUCI systems will have an enhanced ability to attract capital at competitive rates. The combined companies will also be able more effectively to pursue acquisition of and to manage, operate and maintain small, underfunded water and wastewater systems that cannot readily meet current and future regulatory standards. Under the ratemaking proposal described above, customers of the combined company will realize these benefits without any negative rate impact from recovery of the Acquisition Revenue Requirement.

34. Adoption of a ratemaking approach of the type proposed herein would provide appropriate recognition for utility acquisitions in circumstances, such as those present here, where, (i) customers of the acquired utility will benefit, with no adverse impact on the customers of the acquiring utility and (ii) a purchase price greater than the net original cost of the acquired system is reasonable, reflects fair market value, and was arrived at through arm's length negotiations. Absent ratemaking treatment of the nature proposed herein, the shareholder of the acquiring utility would have no opportunity to recover any portion of the acquisition cost incurred to generate merger-relating savings to the benefit of customers. This would create a disincentive for acquisitions which are in the public interest.

35. Illinois-American proposes that no later than five (5) years from the date of the Order issued in this proceeding, Illinois-American be directed to file either: (i) a report showing that the level of Acquisition Savings reflected in the then-current rates, based on revenue requirement data for the immediately preceding calendar year, is equal to or in excess of the level of Acquisition Savings allocable to ratepayers for that year under the Savings Sharing Plan ("Savings Report") or (ii) proposed rates reflecting the level of Acquisition Savings allocable to ratepayers under the Savings Sharing Plan. During the amortization period for the Acquisition Adjustment, additional Savings Reports or rate filings would be made at such intervals as the Commission may direct.

E. Alternative Proposal

36. In the event that the Savings Sharing Proposal is not approved in its entirety, Illinois-American proposes, in the alternative, the following findings under Section 7-204(c), with respect to the ratemaking treatment of Acquisition Costs and the Acquisition Adjustment:

(a) In rate proceedings which utilize a test year which is within the Acquisition Cost amortization period, adjustments will be made to include as an operating expense the test year amortization of Acquisition Costs, with inclusion in rate base of the unamortized balance of Acquisition Costs applicable to the service area for which rates are filed. Such treatment of Acquisition Costs is consistent with: (i) Illinois law which requires that prudently incurred operating costs which benefit ratepayers, including costs not directly related to the provision of service, are recoverable in rates; Peoples Gas Light & Coke Co. v. Slattery, 373 Ill. 31, 61-62 (1939) (operating costs may not be disallowed absent a "showing that, for some reason, the amount was improperly increased above a legitimate cost"); Citizens Utilities Board v. Commerce Comm., 166 Ill.2d 111, 122-23, 127 (1995) (even costs not directly linked to the provision of service are recoverable, if such costs benefit ratepayers directly or indirectly); (ii) prior decisions of the Commission; and (iii) proper ratemaking policy.

(b) In future rate cases involving the former CUCI Division for which the test year is within the amortization period for the Acquisition Adjustment, (i) the annual amortization of the Acquisition Adjustment should be allowed as an "above-the-line" expense allocable to the CUCI Division; and (ii) the unamortized balance for the Acquisition Adjustment should be included in the CUCI Division's rate base. Such ratemaking approach is required by Illinois law and is consistent with appropriate ratemaking policy. As indicated above, the purchase price for the Utility Assets represents the value of CUCI's property devoted to public service as a market

analysis confirms. Inclusion of the Acquisition Adjustment in rate base is appropriate to recognize this value. In setting rates, the Commission must allow a reasonable rate of return on the value of property devoted to public service. 220 ILCS 5/9-201, 9-202, 9-211. Union Electric Company v. Commerce Comm., 77 Ill.2d 364, 377 (1979).

(c) Illinois-American will limit the amount of revenue sought in each rate proceeding to cover items (a) and (b) of this Paragraph to the amount of Demonstrated Savings. The alternative ratemaking proposal would, therefore, have no adverse affect on rates at any time.

F. Findings Regarding Acquisition

37. In this proceeding, the Commission should find, under Section 7-204, that:

(a) the Acquisition will not diminish Illinois-American's ability to provide adequate, reliable, efficient, safe and least-cost public utility service;

(b) the Acquisition will not result in any unjustified subsidization of non-utility activities by Illinois-American;

(c) costs and facilities are fairly and reasonably allocated between utility and any non-utility activities in such a manner that the Commission may identify those costs and facilities which are properly included by Illinois-American for ratemaking purposes;

(d) the Acquisition will not significantly impair Illinois-American's ability to raise necessary capital on reasonable terms or to maintain a reasonable capital structure;

(e) Illinois-American will remain subject to all applicable laws, regulations, rules, decisions and policies governing the regulation of Illinois public utilities;

(f) the Acquisition is not likely to have a significant adverse effect on competition in those markets over which the Commission has jurisdiction; and

(g) the Acquisition is not likely to result in any adverse rate impacts on retail customers.

38. The Joint Applicants request that the Commission enter an Order approving the Acquisition as expeditiously as possible, and in no event later than November 1, 2000.

G. Financing

39. The proposed Common Stock issuance in the amount up to \$112.5 million will fund a portion of the purchase price of the Acquisition. The issuance will exceed 10% or more in a calendar year, or 20% or more in a 24-month period, of the aggregate principal amount of the common stockholder's equity of IAWC which is expected to be outstanding at the date of issuance of such Common Stock (such common stockholder's equity at December 31, 1999 being \$131,119,599). Accordingly, the provisions of Section 6-102(b) of the Act apply. As described below, IAWC will fund the balance of the purchase price of the Acquisition with debt. The amount of common stock equity and debt which IAWC will issue is appropriate to maintain a balanced capital structure, consisting of approximately 45% common equity and 55% debt.

40. IAWC will sell for cash shares of Common Stock to AWW. AWW is an "affiliated interest" of the Company within the meaning of the Act. The number of shares of Common Stock to be issued would not exceed 5.7 million, however, the actual number of shares issued will depend on the cash to be paid by AWW and a price per share determined at the time of issuance based on the common equity value per share as shown on the most recently available balance sheet of IAWC. The aggregate cash price for the Common Stock will not exceed \$112.5 million. Promptly after each issuance of Common Stock, IAWC will file a Special Report with the Commission setting forth applicable information with respect to such Common Stock, including the issuance date, the exact number of shares and purchase price.

41. To issue debt securities on the most favorable terms available, AWW has formed a financing subsidiary, American Water Capital Corp. ("AWCC"), which will secure debt financing for Illinois-American at a cost rate at or below the level which Illinois-American could obtain on an independent basis. AWCC is an "affiliated interest" of Illinois-American

within the meaning of Section 7-101 of the Act. An affiliated interest agreement between Illinois-American and AWCC was approved by the Commission in Docket 00-0306. Illinois-American will issue its securities to AWCC in an amount and having terms to match the terms of the financing obtained by AWCC (or portion thereof, required by Illinois-American), and applicable administrative costs. Initially, AWCC will obtain, and Illinois-American's obligation to AWCC will be, short-term indebtedness within the meaning of Section 6-102(c). This short-term indebtedness shall not exceed \$137.5 million in aggregate principal amount. Within twelve months following the Acquisition, Illinois-American intends to arrange through AWCC for the refunding of this initial short-term debt with permanent long-term financing. For short-term debt, the interest rate paid by Illinois-American to AWCC is presently estimated to be 15 basis points above the 30-day LIBOR rate. For long term debt, the interest rate paid by Illinois-American will not exceed 275 basis points above the yield on 10-year U.S. Treasury Bonds. Illinois-American will reimburse AWCC for the actual cost of debt issued on Illinois-American's behalf.

42. Issuance of the proposed short-term indebtedness does not require Commission approval by reason of Section 6-102(c) of the Act. Further, because at least 90% of the proceeds of the proposed long-term indebtedness will be for the purpose of refunding outstanding indebtedness, the provisions of Section 6-102(b) of the Act will not apply to the refunding. Illinois American will file with the Commission the required notice with the Commission under Section 6-102(d) at least 15 days prior to issuing any such refunding indebtedness. As noted, Illinois-American obtained Commission approval under Section 7-101 to enter into the arrangements for the short- and long-term debt with its affiliated interest, AWCC, in Illinois-American Docket 00-0306. Illinois-American will enter into the agreements

with AWCC on terms no less favorable than Illinois-American could obtain from an unaffiliated third-party. The proposed common equity financing and arrangements between Illinois-American and AWCC are reasonable, and in the public interest.

H. In Support of Approval for Lease

43. AWW or an affiliate of AWW other than Illinois-American will purchase from CRC the office building presently utilized by CUCI in accordance with the Lease. The Lease was approved by the Commission in Docket 96-0056. The Lease is included in the Appendix which accompanies this Application as Exhibit "C."

44. Subject to the approval of the Commission under Section 7-101, the Lease would be assumed by Illinois-American and AWW, or the affiliate of AWW which acquires ownership of the office building.

45. The Lease is reasonable, and in the public interest.

I. Approvals Sought by Illinois-American and CLW

(a) Water Purchase Agreements and Storage/Transportation Agreement

46. As a part of the Agreement, AWW, or a non-regulated affiliate, will purchase from CUC all of the common stock of CLW (the "CLW Acquisition"). Neither AWW nor CLW is a public utility. As a result, the CLW Acquisition is not a "reorganization" under Section 7-204, and does not require the approval of the Commission.

47. In Citizens Water Resources Company and Citizens Utilities Company of Illinois, Dockets 96-0200 and 96-0240 (consolidated), the Commission approved the Water Purchase Agreements under which CLW is authorized to sell water on a wholesale basis to CUCI for resale in certain areas in and near Homer Township in Will County, Illinois, and in and near the Village. In Dockets 96-0200 and 96-0240, the Commission also approved the

Storage/Transportation Agreement. The Water Purchase Agreements and Storage/Transportation Agreement are included in the Appendix which accompanies this Application as Exhibit "D," Parts 1, 2 and 3. The terms of the Water Purchase Agreements and the Storage/Transportation Agreement are discussed in the Order in Dockets 96-0200 and 96-0240 (consolidated).

48. As discussed above, AWW will purchase the common stock of CLW. Accordingly, CLW will, after such purchase, be an affiliate of Illinois-American (as that term is defined in Section 7-101 of the Act).

49. In this proceeding, Illinois-American seeks approval under Section 7-101 to assume CUCI's rights and obligations under the Water Purchase Agreements and Storage/Transportation Agreement.

(b) Services Agreement

50. After the CLW Acquisition, Illinois-American also proposes to assume CUCI's rights and obligations under the Services Agreement. In accordance with the Services Agreement, Illinois-American would provide general management, general operations support, maintenance, customer billing, engineering, data processing, general administrative, purchasing and other services (the "Services") to CLW.

51. The Services will be provided at cost in accordance with the terms of the Services Agreement, which is marked as Exhibit "G".

52. The Commission approved the Services Agreement in Dockets 96-0200 and 96-0240 (consolidated).

53. The terms of the Water Purchase Agreements, Storage/Transportation Agreement and Services Agreement are reasonable, and in the public interest.

J. Corporate Approvals

54. The Purchase Agreement has been approved by the Board of Directors of Illinois-American and the Board of Directors of CUCI. The Purchase Agreement also has been approved by the sole shareholder of CUCI. IAWC will obtain the approval of its Board of Directors for the Financing.

K. Supporting Data, Information and Material

55. To expedite the Commission's review of the Reorganization, the Joint Applicants submit the following data, information and material:¹

(a) The manner in which the Joint Applicants propose to reorganize is described in this Application.

(b) The certificated service area of CUCI is depicted in Exhibit "A," and a listing of the Certificates is shown in Exhibit "B".

(c) The Lease is included in the Appendix (Exhibit "C").

(d) The Water Purchase Agreements and Storage/Transportation Agreement are included in the Appendix (Exhibit "D", Parts 1, 2 and 3).

(e) A diagram showing the corporate structure of Illinois-American as it will exist after the Acquisition is included in the Appendix (Exhibit "E").

(f) As noted above, AWW is the parent company of Illinois-American. Illinois-American has no subsidiaries. A complete listing of the companies with which Illinois-American is affiliated as of the date hereof appears on Exhibit "F" of the Appendix.

(g) The Appendix (Exhibit "G") includes a copy of the Services Agreement. If other affiliated interest agreement(s) is (are) proposed in the future, Illinois-American will submit such agreements for any required approval.

(h) Except as discussed herein, there are no current plans for transfer or use by an affiliate of assets or information now owned or in the possession of Illinois-American or CUCI. If plans for such transfer or use are developed in the future, the proposed transaction and terms and conditions thereof will be submitted to the Commission for approval.

¹ Illinois-American and CUCI were each a subsidiary of another corporation (AWW and CUC, respectively), before August 15, 1989, the effective date of Section 7-204A of the Act. Accordingly, the requirements of Section 7-204A are not applicable to the reorganization proposed herein. 220 ILCS 5/7-204A.

(i) The most recent five-year forecast showing the capital requirements of the combined company is included in the Appendix (Exhibit "H"). The forecast includes for each year following the reorganization: (i) projected capital requirements; (ii) sources of capital; (iii) the projected capital structure; and (iv) the assumptions underlying the information included in the forecast.

(j) Income statements and balance sheets for Illinois-American, NIWC, UWI and CUCI for 1999 are set forth in the Appendix (Exhibit "I"). A pro forma combined income statement and balance sheet for Illinois-American as adjusted to incorporate the operations of the four entities also appear in the Appendix.

WHEREFORE, the Joint Applicants respectfully request that the Commission, as expeditiously as possible and on or prior to November 1, 2000 enter an order pursuant to Sections 7-102 and 7-204 as follows:

- (1) Approving and authorizing the Acquisition on the terms described herein;
- (2) Approving and authorizing to the extent necessary the "Asset Purchase Agreement," providing for the Acquisition;
- (3) Adopting the findings proposed herein, including those related to the Savings Sharing Proposal;
- (4) Approving, as of the effective date of the Acquisition, the assumption by Illinois-American of the Certificates of Public Convenience and Necessity for the areas presently served by CUCI;
- (5) Authorizing CUCI to permanently abandon the provision of water and sanitary sewer service in all areas served by CUCI, effective as of the date of closing of the Acquisition.
- (6) Approving the Savings Sharing Proposal described in Paragraphs 23-35 above or, in the alternative, the proposals set forth in Paragraph 36;

(7) Authorizing the performance of such other and further actions or transactions which may be necessary or appropriate to carry out the actions proposed in this Application.

Also, IAWC requests that the Commission enter an Order under Sections 6-102(b) and 7-101 as follows:

(1) Approving the issuance and sale of shares of Common Stock to AWW, an "affiliated interest," in an amount not to exceed \$112.5 million, all on the terms and subject to the conditions set forth herein;

(2) Approving application of the net proceeds from the Common Stock to the purposes set forth herein; and

(3) Authorizing such other and further actions as may be appropriate in connection therewith.

Also, IAWC requests that the Commission enter an Order under Section 7-101, as follows:

(1) Approving assumption of the Lease by IAWC and AWW, or an affiliate of AWW other than IAWC;

(2) Authorizing such other and further actions or transaction which may be necessary or appropriate in connection therewith.

Also, IAWC and CLW request that the Commission enter an Order under Section 7-101 of the Act and Section 15-102 of the Carrier Act, as follows:

(1) Approving the assumption by IAWC of the rights and obligations of CUCI under the Water Purchase Agreements, Storage/Transportation Agreement and Services Agreement; and;

(2) Authorizing such other and further actions or transaction which may be necessary or appropriate in connection therewith.

Respectfully submitted,

ILLINOIS-AMERICAN WATER COMPANY

By: *Tony L. Florio*
Vice President 6/30/00
(Title) (Date)

CITIZENS UTILITIES COMPANY OF ILLINOIS
and CITIZENS LAKE WATER COMPANY

By: _____

(Title) (Date)

Dated: June 30, 2000

Of Counsel:
Boyd J. Springer
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Belleville, IL 62223
(618) 239-2225

Attorney for Illinois-American Water Company

(2) Authorizing such other and further actions or transaction which may be necessary or appropriate in connection therewith.

Respectfully submitted,

ILLINOIS-AMERICAN WATER COMPANY

By: _____

(Title)

(Date)

CITIZENS UTILITIES COMPANY OF ILLINOIS
and CITIZENS LAKE WATER COMPANY

By: *J. Michael Love* _____

VICE PRESIDENT

JUNE 29, 2000

(Title)

(Date)

Dated: June 30, 2000

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Attorney for Citizens Utilities Company of Illinois and
Citizens Lake Water Company

VERIFICATION

I, Terry L. Gloriod, certify that: (i) I am President of Illinois-American Water Company; (ii) I have read the attached Verified Application; (iii) I am familiar with the facts stated therein; and (iv) the facts are true and correct to the best of my knowledge.

Terry L. Gloriod

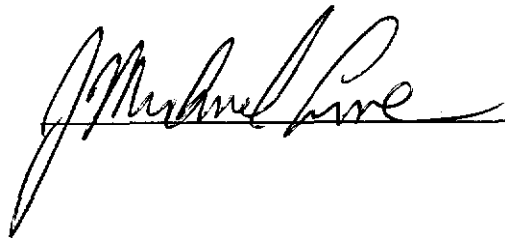
SUBSCRIBED and SWORN
to before me this 30th day
of June, 2000,



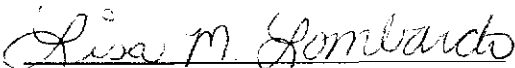
Patricia A. Barnett
Notary Public

VERIFICATION

I, J. MICHAEL LOVE, certify that: (i) I am VICE PRESIDENT of Citizens Utilities Company of Illinois and Citizens Lake Water Company; (ii) I have read the attached Verified Application; (iii) I am familiar with the facts stated therein; and (iv) the facts are true and correct to the best of my knowledge.



SUBSCRIBED and SWORN
to before me this ^{29TH} day
of JUNE 2000,



Notary Public

My Commission Exp. Oct. 31, 2001